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Thursday, December 8, 2011

Chair

Mr. Larry Miller

Standing Committee on Agriculture and Agri-Food

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● (1535)

[*English*]

The Vice-Chair (Mr. Malcolm Allen (Welland, NDP)): Thank you to everyone for being here. I greatly appreciate it.

I see some faces I've seen before, so I think some of you know how this works. Basically there are ten minutes or less for each participating group, followed by rounds of questioning.

My apologies for being a little tardy; there were some things in the House. Our side gets to be second, so it takes us a bit longer to finish up.

The chief of the Library of Parliament retired today, so all parties were wishing him well. That's what took the time today. I beg your indulgence for that.

Let me simply go by what I have listed here.

We'll go to the Canadian Pork Council and Jean-Guy Vincent.

If you wish to go first, there you are. You're up.

Mr. Jean-Guy Vincent (Vice-President, Board of Directors, Canadian Pork Council): Good afternoon. My name is Jean-Guy Vincent. I am a hog producer from Sainte-Séraphine, Quebec, and first vice-chair of the Canadian Pork Council's board of directors.

My presentation will be in French.

[*Translation*]

I would like to thank the members of the House of Commons Standing Committee on Agriculture and Agri-Food for the invitation to appear before you this afternoon to discuss the Canadian hog industry, business risk management tools and Growing Forward II.

First, let's talk about the state of the industry. The Canadian hog sector is emerging from the most challenging period in its history. Since the fall of 2006, hog producers have battled one unforeseen event after another, from increased feed costs and higher exchange rates, to impacts from H1N1 and foreign policies such as country of origin labeling. While the past few years have been difficult and the hog sector landscape has changed, the future is more optimistic. The hog sector will remain a key player in Canadian agriculture and an important exporter.

Now let's talk about the strategic plan. To recognize our changed landscape, the Canadian pork industry has recently updated its strategic plan. We identified our challenges as an industry and more importantly decided how we can maximize our opportunities and build on our strengths. A copy of the plan has been distributed to the committee.

Moving on to business risk management, the best risk management tool is a strong market. Producers would prefer to rely on the market for a return on their investment. However, there are times when the market does not work and in those times business risk management programs are needed. Strong and reliable national programming will ensure that producers receive the same treatment regardless of the province they live in or size of the sector.

AgriStability is a core program that needs to be maintained. While there will be no benefits expected from the program now or in coming years due to current low reference margins, the program has worked basically as intended. But changes need to be made, and you have heard these from industry before. Caps must be removed; the historical reference margin should be the better of the past three years or the Olympic average; the viability test must be removed; and negative margin coverage should be increased.

The Advance Payments Program and emergency advances have worked well for the hog sector. However, producers are anxious about the pending repayment schedules, and we are closely monitoring the situation as the deadline for producer plans to be submitted arrives.

Longer-term changes to the APP to keep the program viable include: raising the permitted lending limit; allowing advances to be taken on expected marketings not inventory; and removing the personal and shareholder guarantee requirements.

AgriInvest has not yet been of value to our sector, and indeed was introduced at the worst time. But it may be useful in the future with the following key changes. We suggest removing caps, increasing the percentage of allowable net sales, and examining the allowable net sales concept to ensure that contributions across commodities are equivalent in nature in terms of risks to address.

The AgriRecovery does not currently address the risk of catastrophic losses that could impact the sector.

● (1540)

Work needs to be done urgently in order to have a clear and transparent response to a catastrophic situation such as a disease or border closure. These core programs need to be maintained and enhanced. There is a need for governments to find new and innovative means to help producers offset the risks they face.

Hedging and price insurance initiatives must be facilitated. While currently producers have access to hedging on the futures market, there are barriers to them doing so. Initiatives to remove these barriers are key to making hedging a useful and used business risk management tool. In addition, a new price insurance program in Alberta is running offering price protection based on the futures market.

Two main actions are needed: governments need to provide loan guarantees to allow for funds to be available to cover margin calls; the Alberta Price Insurance Program offers an alternative approach for producers which needs to be supported and made available across the country with affordable premiums. AgriInsurance is not a novel program, with decades of success with crops. However, it is not available to the hog sector and should be made a priority.

With regard to infrastructure, infrastructure initiatives need to be explored in order, among other things, to facilitate on-farm investment to address emerging market demands such as welfare or environmental requirements and updating hog barns as a result of low prices in recent years, during which producers were unable to reinvest.

The free trade agreement with Korea is an important issue. For the Canadian pork industry to remain successful and viable, we need market access through free trade agreements. A critical market for us is South Korea, and yet the free trade agreement talks with that country have been stalled since 2008. Any further delay in concluding free trade agreement talks with South Korea will seriously undermine the competitiveness of the pork industry and lead to the loss of jobs and contraction in the production and processing sector in Canada, including possible decline in producer prices. Canada's current pork trade with South Korea, which is projected to be approximately $250 million in 2011 or approximately 10% of total Canadian pork exports, will disappear to those who enjoy FTA preferences.

As for the free trade agreement with the European Union, the Canada-EU relationship holds tremendous potential for the pork industry and is one of the last high value pork markets Canada can access. With the completion of a free trade agreement between Canada and the European Union, no other nation, other than the EU countries themselves, has the potential to capture a market share.

With respect to swine innovation, the Canadian Pork Council considers the Growing Canadian AgriInnovation Program—Canadian Agri-Science Clusters Initiative a success.

● (1545)

The council invites the federal government to substantially increase the funds of this specific program in Growing Forward II.

In 2010, the Canadian Pork Council officially incorporated Swine Innovation Porc to facilitate research, technology transfer and commercialization initiatives to enhance the competitiveness and differentiation of the pork industry and its products.

The Canadian Swine Health Board was established to help the industry address emerging disease issues. Many structural projects are underway across Canada, with the involvement of hundreds of producers, mainly in the area of biosafety, but also in research and monitoring. But swine health infrastructure and personnel require a stable and ongoing source of funding and support in order to address important economic and One Health-related swine health problems and issues.

It is widely recognized that animal health is of increasing importance—

[*English*]

The Vice-Chair (Mr. Malcolm Allen): Pardon me, *monsieur Vincent*, but are you just about there?

Mr. Jean-Guy Vincent: Yes.

The Vice-Chair (Mr. Malcolm Allen): Thank you.

[*Translation*]

Mr. Jean-Guy Vincent: Yes. It is widely recognized that animal health is of increasing importance for trade, and we must address issues that threaten our trade-dependent Canadian pork industry.

In conclusion, agriculture has no political colour. It is the colour of a Canada in which all political parties work to ensure that producers have incomes and are able to live from those incomes, with adequate support programs and investments that will continue to make the industry known for high-quality products both in and outside the country. Thank you very much.

[*English*]

The Vice-Chair (Mr. Malcolm Allen): *Merci*.

Now we'll go to Mr. Atamanenko. I'll give him a second or two to get out from underneath what looks like Niagara Falls, actually—

Voices: Oh, oh!

[*Translation*]

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): That has nothing to do with your presentation.

Some voice: Oh, oh!

[*English*]

The Vice-Chair (Mr. Malcolm Allen): It seems the lid wasn't quite secure on that water jug.

Mr. Alex Atamanenko: I've only disrupted this committee one other time, and that was when Dave Rinneard was here.

Go ahead, Chair. We'll....

The Vice-Chair (Mr. Malcolm Allen): Thank you, Alex.

Mr. Fuller, the time is yours, sir.

Thank you.

Mr. David Fuller (Chair, Chicken Farmers of Canada): I would like to thank the agriculture committee for inviting CFC to speak to you today on business risk management.

My name is David Fuller. I am the chairman of the Chicken Farmers of Canada. I am a chicken and wheat farmer from the Annapolis Valley in Nova Scotia.

We have provided you with our submission. I will not read the full submission, but will focus on the main points and our recommendations.

Chicken Farmers of Canada is a national organization funded completely through farmer levies.

● (1550)

What Chicken Farmers of Canada delivers is a secure, steady supply of fresh, quality, Canadian chicken, the highest food safety in animal care production standards, 55,000 jobs, a $6.5 billion contribution to Canada's gross domestic product, and innovation driven by millions of dollars of poultry research.

Throughout our production of more than 1.4 billion kilograms of chicken, valued at $2 billion, we create more than 31,000 direct and indirect jobs. We also contribute to the success of the grain and oilseed farmers by purchasing 2.5 million tonnes of feed annually, worth over $875 million. Our success depends on effective government policy, not taxpayer dollars.

As farmers, we have to manage many risks. We need to manage them for the success of our farms, our rural communities, and for the consumers who purchase the products we produce. From a food security perspective, business risk management programs are essential because they help farmers cope with what the real world throws at us. Agriculture that manages risk well will invest for the future with confidence.

For Canadian chicken farmers, supply management is our primary business risk management program. The three pillars of supply management—import controls, production planning, and producer pricing—provide chicken farmers in Canada and the Canadian chicken industry with the predictability and the stability for them to invest with confidence.

The system allows chicken farmers to earn their revenue from the marketplace. As such, we do not rely on any government program for our financial and market stability. To run an efficient supply management system, we require a predictable level of imports. The key is to have a certain certainty in the volume of imports so that domestic production can be planned accordingly. In terms of imports, it is important to know that Canada is not a closed market for chicken. In fact, Canada's 34 million citizens are the 16th largest importers of chicken in the world.

Chicken Farmers of Canada appreciates the strong support of the Government of Canada and the opposition parties for supply management. Our farmers have confidence in the government's ability to preserve our system of supply management in trade negotiations such as the Canada–EU trade agreement and the upcoming trans-Pacific partnership.

Canada has already successfully negotiated nine trade agreements to open up markets, and each one of these has preserved supply management. What we recommend is that government work closely with Chicken Farmers of Canada to implement the recommendations of the chicken import working group to ensure that there is no circumvention of our tariff-free quota, thereby maintaining an effective import control pillar.

While chicken farmers are eligible for AgriStability, the combination of short production cycles, industry contingency supply protocols, and improvement in animal disease protocols has significantly limited the likelihood that a chicken farmer would ever experience the greater than 30% loss that is necessary for a supply management farmer to trigger the program. The result is that chicken farmers do not participate in the program, as they do not want to pay for premiums for a program they will never use.

Unfortunately, this means that supply management farmers have lost the disaster coverage they had prior to the implementation of AgriStability. We recommend that the government review the AgriStability program to ensure that the livestock and poultry commodities are not disadvantaged by the program's calendar year design and that supply management farmers would be able to pay premiums once a 30% decline is triggered.

Currently, there is an AgriRecovery framework in place that outlines the events that would likely result in a one-off response. We recommend that the government put in place a permanent program. Barring that, CFC would recommend that a list of events covered include a disease outbreak, which would trigger the program no matter how many farmers are directly affected.

● (1555)

While AgriInsurance is listed as a BRM program, the reality is there is no animal disease insurance program. The federal, provincial, and territorial legislative complexities surrounding this issue point to the reality that no programs will exist in the foreseeable future. We recommend that the government review the AgriRecovery program and define an effective animal production insurance model.

Business risk management is also delivered through individual farmer action and industry initiatives, which all contribute to reducing the burden on government business risk management programs. For chicken farmers, supply management allows us to manage not just our financial risk but other risks as well. We use a system for animal health preparedness, biosecurity, on-farm food safety, traceability, and animal care. These programs reduce the burden on government business risk management programs in many ways. Active government support can help the agriculture industry help itself.

On our on-farm food safety program, CFC was the first organization to receive technical recognition for our on-farm food safety assurance program in 2002 and the second to receive technical recognition for our management system in 2006. Currently, over 96% of Canadian chicken farmers are certified on the OFFSAP program.

Presently, we are working with the Canadian Food Inspection Agency to be the first organization to achieve full government recognition. This is a great success for both industry and government.

Now, in terms of biosecurity as part of industry risk management strategies, chicken farmers have developed and implemented enhanced biosecurity measures that help protect animal health and prevent flock infections from outside sources.

The Canadian poultry industry has worked with the Canadian Food Inspection Agency and provincial governments to develop emergency response plans. These response plans have resulted in government and industry being able to contain a disease before it spreads, thereby saving the industry, governments, and the public the cost of managing a full disease outbreak.

The success of this protocol is clear. In 2004, 43 farms were depopulated in the Fraser Valley as the result of an avian influenza outbreak, at a cost of more than $60 million to the federal government. In 2009, a case of avian influenza in the same area was limited to just two farms. And in 2010, an outbreak in Manitoba was contained to one farm and one hatchery at a cost of $2 million.

The effectiveness of this protocol has allowed Canada to demonstrate to other countries the merits of regionalization, which has provided a direct benefit to Canada's exporting animal industries. The key to a successful pre-emptive cull program is proper compensation for the destroyed animals.

Chicken Farmers of Canada was very pleased with the announcement by Minister Ritz in March 2011 to put in place new compensation maximums under the authority of the Health of Animals Act. These revised figures better reflect the market value of our birds. This positive step needs to be followed up with the finalization of the compensation models that are used to calculate actual compensation.

Under traceability, the supply management system for chicken involves strict record keeping and tracking to ensure that each farmer produces the appropriate level of production. As a result of the preplanned movement of birds and strict record keeping, traceability data in the chicken sector is already being collected and managed.

These provincial-based traceability systems allow for rapid analysis of farms within a specific control area and the transmission of that data and analysis to the CFIA and to the provincial government authorities. The industry believes that these systems meet the federal, provincial, and territorial traceability guidelines. These systems are in a state of continuous improvement, focused on technology improvements and improved analysis capabilities.

● (1600)

CFC has developed an auditable animal care program to demonstrate and maintain high standards of Canadian chicken industries on farm animal care. While no government recognition program for an animal program exists, CFC has received support from the Canadian Federation of Humane Societies, the Canadian Veterinarian Medical Association, the Canadian Poultry and Egg Processors Council, the Further Poultry Processors Association of Canada, the Canadian Restaurant and Foodservices Association, and the Canadian Federation of Independent Grocers.

Certification began in 2010 on our farms, and to date over 50% of Canadian chicken farms are certified. We recommend that the government recognize the benefit of all industry risk mitigation programs and their positive impact on the government business risk management portfolio, and that government provide continuing financial assistance for the development and ongoing implementation of these industry business risk management programs.

Specifically, the government should support the finalization of the Canadian on-farm food safety recognition protocol and use the success of commodities that achieve full recognition to promote the Canadian approach; finalize the compensation models to determine actual compensation for birds ordered destroyed under the Health of Animals Act; recognize that the federal-provincial-territorial traceability guidelines need to take into account the variability among agricultural industries and permit the use of systems that meet the needs of industry and government in the most effective manner.

The government should continue financial support of the National Farm Animal Care Council in developing the codes of practice and auditable assessment protocols, and ensure through the CFIA and the Canadian Border Services Agency that imports meet the same risk management standards as domestic production and that they do not undermine consumer confidence in the product that the Canadian industry has carefully built.

Through years of experience, the chicken industry has learned that a stable, predictable business environment allows an industry to invest with confidence. In this regard, government and industry business risk management programming is critical for Canada's agriculture industries to be able to invest in innovation and to ensure their successful future.

While today's session is about business risk management, I would like to take this opportunity to make one more recommendation regarding innovation. In the fall of 2010 the federal government committed to investing $1.8 million in poultry research through the Canadian Poultry Research Council's poultry science cluster initiative. These funds have been instrumental in increasing Canada's ability to carry out poultry research. The funding has also assisted in poultry farmers addressing key priorities and challenges by promoting innovation and encouraging national coordination among scientists. We recommend that the government commit sufficient funds through Growing Forward II to poultry research and innovation to maintain and enhance the capability of the current initiative. It is essential that programs take into account the structure and the value chains, and that all sections, from primary research to application, are sufficiently funded.

I will stop there.

The Vice-Chair (Mr. Malcolm Allen): Thank you, Mr. Fuller.

Mr. Chorney from Keystone Agricultural Producers, please.

Mr. Doug Chorney (President, Keystone Agricultural Producers): Good afternoon, and thank you for inviting me here today. I am president of Keystone Agricultural Producers, a general farm organization from Manitoba that represents farm families and 22 commodity groups.

On behalf of Keystone Agricultural Producers, I am pleased to have the opportunity to present today on Growing Forward 2, business risk management.

Producers face many uncontrollable production and economic risks every year. These risks can result in large fluctuations in producer incomes, which threaten the stability of the agricultural sector. To achieve sustainable growth, we need programs that are long term, simple, equitable to all commodities, predictable, and delivered consistently across Canada.

Today I will comment on the four areas of the BRM file, specifically AgriStability, including the targeted advance payment program; AgriInvest; AgriInsurance; and AgriRecovery. Another program that we would like to provide comments on is the advanced payment program, APP, which allows producers to extract the best possible price from the marketplace by allowing them to time their sales.

First is AgriStability. While we are uncertain of the direction future programming may take, if we assume that AgriStability is going to be the base for the future, we need to look at ways to improve it. Flexibility and timeliness of payments are two key issues. Producers often wonder why they have to wait two years after they've suffered a loss before they receive payments. There will be farmers in Manitoba as well as across Canada who know their inventories before year end, and in some instances there will be little to none after a difficult season. Improvements to the methodology of the advance payment calculation could be made so that the administration does not end up issuing as many requests for repayment of targeted advance payments.

Another key ingredient in timeliness involves the economics branch and the determination of prices for certain commodities that fall outside the published price lists. Often these are lower-volume commodities that require some research, but the waiting time for price determination can be excessive and cause delays in future payments. An example of such a commodity would be forage seeds.

The second issue that plagues many farmers is the one of extended market troughs that have resulted in a steady and ongoing reduction of reference margins. Livestock producers in Manitoba know all about that due to the BSE situation and the rising value of the Canadian dollar.

Some amendments to the program that would assist in providing increased stability to producers include the following.

Removing the negative margin viability test could be beneficial to farm operations. Currently, a producer that has negative margins for two or more of the three years that end up in the reference margin calculation will not be eligible for coverage. We recognize that in many of these instances the farm has been viable in the past, and given the opportunity, the farm can become viable once more when market conditions improve.

Increasing the negative margin coverage level from 60% to 70% would provide improved assistance to producers in a predicament who have nowhere else to turn, as they may not have other programs available to them. Also, we should provide the highest possible reference margin by using the calculation either of the current Olympic average or the previous full five-year reference period. The benefit to producers would be that payments would be provided to some producers who did not trigger under the Olympic average and also would provide higher payments to producers already receiving assistance.

Another option for investigation and possible consideration is lagging the reference margin by one year and possibly moving up the final application deadline. As an example, for the 2012 program year the reference period would be 2006-2010, instead of the current 2007-2011. This may help producers make plans and arrange financing and potentially make timeliness of actual payments less of a problem. It may also improve processing speed if historical data is completed and corrected before the final application is submitted. A better reference margin estimate should also result in more appropriate advances.

If these amendments were implemented, AgriStability could become a more responsive program with the capacity to deal more effectively with changing market circumstances. The program may meet the accepted criteria of being predictable and bankable. From KAP's point of view, if in fact AgriStability or a similar margin-based program with additions to or improvements upon it is not the program of the future, then at this point we are open to investigating the insurance-based type of program with better coverage of production or revenue or both.

● (1605)

On AgriInvest, we know this program is easy to understand, cost effective to administer, and, next to AgriInsurance, is likely the most predictable and bankable program farmers have access to. This program is a good base to build upon in good financial years. If the goal of the program is to replace the top 15% of one's AgriStability margin, then in most cases it doesn't achieve that. In fact, on many farms it could take up to three years of contributions to make up for one drop of 15% in margin. A change that would improve this program could include raising the contribution rate from the current 1.5% of allowable net sales so the fund can build up more rapidly.

Both provincial and federal governments should maintain and work towards strengthening production insurance programs. It should be offered to producers at different levels of protection, based on the individual producer's yield history experience. The producer's share of premiums should be affordable. AgriInsurance crop pricing should move toward a market discovery mechanism, instead of being derived from government projections. Decisions made by government need to ensure that they provide increased protection to our producers in time of need.

Production insurance coverage should reflect the productive capacity of the land, average yields, current market conditions, and the cost of production. The current slate of insurance programming needs to be expanded to include coverage options for the livestock sectors, such as cattle and hogs.

On AgriRecovery, we recognize that dollars have flowed from time to time, but from the affected farmer's viewpoint, it seems to take an inordinate amount of time to determine what will be covered under this program and to what extent they will have coverage. We realize that it takes agreement by both federal and provincial governments to determine final program design and support levels. However, we would like to see both levels of government work with farm groups to develop a standard list of programs, such as the cover crop protection program, that can receive funding through AgriRecovery with predetermined criteria. This will ensure that in disaster situations farmers will know what will be covered and what dollars will flow in a timely fashion if standard programming is in place. We also strongly believe there is no reason to ever apply deductibles to payments when there is an acute need. Of course, we will still need consideration for other unforeseen adverse circumstances that may emerge in the future.

We understand the concern of the federal government that this program will become the new ad hoc program of the future. The intent is that it will only assist in situations where other existing programs fail to provide coverage. Although in some cases the funding didn't cover enough of the needs, Manitoba and Saskatchewan producers saw the benefits of AgriRecovery programs this past summer. Since the funding will be counted as revenue, it often defers future AgriStability payments.

The advanced payment program is an essential tool for farmers, and we support the continuation of interest-free loans for all commodities to allow producers to market the production in a timely manner. There has been discussion regarding increasing the limits and the interest-free portion, but at this time policy adoption on this has been left up to the commodity groups involved. From our perspective today, it is imperative that this program remain in place.

In conclusion, we think that if the current BRM suite is maintained, changes should be made to let it deal with declining reference margins, diversified farms, and other chronic program issues. We face production and economic risks, and it is crucial that programs are designed, developed, and reviewed in consultation with established farm organizations. These programs must be adequately funded by both levels of government, while keeping in mind the goal of fostering Canadian agricultural policy that focuses on maintaining the profitability and stability of primary producers.

Thanks.

● (1610)

The Vice-Chair (Mr. Malcolm Allen): Thank you, Mr. Chorney.

From the National Cattle Feeders' Association, we have Mr. Evans.

Mr. Russell Evans (Manager, Policy and Research, National Cattle Feeders Association): Good afternoon, Mr. Chairman and committee members. Thank you for the opportunity to present.

My name is Russell Evans. I'm the manager of policy and research for the National Cattle Feeders Association. I am joined by Ms. Terri Holowath, who is a partner with Catalyst, an accounting, assurance, and consulting firm in Calgary. She focuses on cattle feeder clients and will provide a little detail on some of the things that are not working in the program, and possibly some of the things that are working.

I'll try to cover some of the same things with a different flavour. The National Cattle Feeders Association represents cattle feeders from across Canada, with operations that vary in size from 1,000 head up to and possibly exceeding 40,000 head of one-time carrying capacity. NCFA is funded through voluntary contributions from provincial member organizations.

These feedlots are considered intensive livestock operations and are for the most part operated by multi-generation family run businesses. While there are not as many feeding operations in Canada as there are cow-calf operators, cattle feeders account for a significant amount of value-added production in the cattle industry and the cropping sector.

Cattle feeders typically purchase cattle from the cow-calf operations. They grow and purchase feed and feed cattle in confined lots for between 60 and 250 days, fattening them until they're ready for slaughter. They are then sold through a bid process directly to packers.

A significant amount of cashflow is required to complete the feeding process from purchase to finish and then restock inventory. This is one of the most important details that current BRM programs do not address in the feedlot sector. I think you've heard that from the other sectors as well.

In consulting with our members, they say cash is king: BRM programs are good, but cash is king, and we need to have predictable programs.

Cattle feeders are a key link in the transfer of wealth throughout the beef value chain, plus they are the single largest purchaser feed grains on the Prairies, adding significant value to that sector as well. This is especially true during catastrophic events such as drought or, worse, early frost, where crops destined for human consumption no longer meet the grade.

Cattle feeding is also very labour intensive. We estimate that a typical operation will directly employ one employee for every 1,500 to 2,000 head of capacity, depending on the skill of the operation and the integration the feedlot has with their cropping enterprise. Many feedlots are also some of our largest farmers.

In addition to the capital investment required for facilities and equipment, feedlots have cash requirements for cattle inventory, feed, and supplies, plus a significant amount for labour. That's why cash is king. There are a lot of opportunities for cash to leave the farm.

Cattle feeders are margin operators, operating in an open, free market. They make a little bit of money on a large volume of inventory turnover. They can make a lot of money in a day, but they can lose double that the next day, and the next day after that as well. They accept this risk and for the most part manage it very well. They know their cost of production and utilize a wide range of tools, such as hedging dollars and forward contracting, to manage this risk. But as primary producers, they're vulnerable to the same elements as producers in other agricultural commodities.

When we ask our members where they are most at risk, they say the number one area is that they're vulnerable on the sales side, where they have no control over the price received for finished cattle. They have some control over input costs, but once their cost-per-pound production is locked in, extreme weather and volatile commodity markets can create unmanageable risks on the sale side. They have no way of passing these losses on through the market system.

The second area is catastrophic weather events. The floods of 2010 and 2011 across the southern prairie damaged infrastructure and also created a significant financial burden due to the loss of production. Cattle standing in mud up to their bellies don't eat much, they don't finish fast, and they don't go to market. Normally, operators would move these to higher ground, but the flooding was so extensive that there was no higher ground. This is certainly reflected in the caps part of the AgriRecovery program. Most feedlot operators are well above the caps that exist and were extended to help that, but they were still well beyond that.

● (1615)

The other catastrophic event related to market closures was due to things such as BSE. We hope that won't happen again, but we need to be prepared for that in the future. Certainly, animal health insurance would be appropriate.

Ms. Holowath will provide some details on programs.

Ms. Terri Holowath (Partner, Assurance and Accounting, Catalyst): Good morning, Mr. Chairman and the committee.

I'm a partner with Catalyst, a firm of chartered accountants and consultants, and I specialize in the Canadian cattle industry. I'm here today to speak on behalf of the cattle feeding sector.

I'll focus less on strategy in this presentation. My discussion is more to give you a day-to-day perspective of what's involved in dealing with these programs and why they may not work for the cattle feeding sector. I represent clients whose herds range in size from 1,000 to 100,000 cattle. They're all family owned and operated. The primary difference between the cattle feeding sector and what we call primary production is that cattle feeding inventory is being purchased and sold on a daily basis. This is in contrast to a farmer or a rancher who harvests and sells one crop per year.

My concerns about current programs under business risk management start with this fundamental difference. In the cattle feeding sector, an entity may incur losses on inventory sales that happen at the beginning or in the middle of their fiscal year. Programs based on year-end applications are neither timely nor responsive to how these businesses operate. I have producers with December 31 year-ends who have incurred significant losses in the first two quarters of their year, and they then require cashflow to purchase inventory through late summer and fall.

As Russ indicated, the decline in their margins cannot be pushed down to the suppliers of their commodities, which are the calves or the feed grains. Those prices are sometimes influenced by factors that are outside their control, not by what they're receiving for their finished cattle product. They may have qualified for a payout under current programs, but that funding is not received until the following summer, well over one year after the losses are incurred. There are advance program payments, but because of the caps and the size of the producers we're dealing with, it renders them ineffective.

The application process for current programs is extremely complicated for cattle feeders and for other producers as well. There are two components, one to report the production side of the operation and one to report the financial side. You add to this concepts like structural changes, reasonability tests, and reference margins and it gets extremely complicated. Producers have had to invest in new systems and spend considerable time and money with people like me to fill out these applications. It's also difficult to estimate what they can expect to receive in funding. We need to make it simpler for them.

Your records will show that cattle producers in the feeding sectors have received significant payments. Unfortunately, these payments have not been timely; they're not predictable. We can't estimate those payments for banks and make them bankable for the producers. So current caps also restrict funding for some of our larger producers, who, some may argue, are very important producers in the communities in which they operate as they employ a lot of people, as Russ indicated.

Russ will now discuss our recommendations for change.

● (1620)

Mr. Russell Evans: NCFA believes the AgriStability program is an important program that should be maintained, simplified, and improved.

Our members have indicated that they like the cattle price insurance program that has been piloted in Alberta. It has been easy to use, but it has a critical flaw. It has future payouts based on historical data. In a volatile market, this simply doesn't work.

AFSC has completed a couple of studies of this program, which are due to be released in January. NCFA recommends that the federal government work with the provinces to implement a margin-based insurance program that can operate across western Canada. We believe the results of the AFSC study will be fairly clear on how this program can work effectively under the umbrella of the AgriStability program.

We believe the AgriRecovery program needs to be maintained and improved to cover catastrophic losses, both market loss and weather events. In terms of caps, NCFA recommends that we go to a sliding scale approach to program eligibility. For example, everyone who qualifies for a program receives the same payout on the first $2 million of gross revenue. For those who have gross revenue of between $2 million and $6 million, there is a lower rate of compensation on a per unit of production basis. And for those with revenues over $6 million, the compensation per unit would be less again.

This type of system recognizes the contribution of all producers, regardless of size, and provides everyone who qualifies with a hand up when they need it most. It also recognizes that efficiencies gained as you get bigger don't necessarily cost as much in terms of loss.

Regarding AgriInvest, the NCFA members recognize the value of spreading a topping across the cake, but this money could be better utilized within each commodity. NCFA recommends that dollars spent on this program be reassigned to better reflect the changing demographics of the agriculture community and the specific needs within each sector.

In the beef industry, we are very supportive of the government's efforts to open new offshore markets for our beef products. However, while it is great to open new markets, it is an entirely different set of criteria needed to deliver the right product—cut and wrapped the right way—at the right time.

The NCFA sees the offshore doors starting to open and recognizes this opportunity as the best risk management program they could pursue. But like the oil sands companies, the beef industry needs to develop the pipeline: the infrastructure required to meet the specific needs of the new niche markets. While there will be value in these markets, they will need to be developed over time and will require significant investment in both human resources and nuts and bolts infrastructure.

The NCFA recommends that the federal government plan to partner in this development. This would be a good way to redirect the AgriInvest portfolio.

● (1625)

The Vice-Chair (Mr. Malcolm Allen): Thank you, Mr. Evans.

Now to questioning, and I am going to keep the clock tight because we are going to have to move along.

Madame Raynault.

[*Translation*]

Ms. Francine Raynault (Joliette, NDP): Thank you, Mr. Chairman.

My question is for the cattle producers, more specifically for Mr. Evans.

As a result of a meeting with Quebec representatives of your association earlier this fall, we believe that your industry is in constant motion. In the circumstances, what are the risks your industry is facing? Are current business risk management programs adequate?

[*English*]

Mr. Russell Evans: Our basic risks are volatile markets. It's very difficult to lock in your production costs and have no control over the price of your sales. Commodity markets are fluctuating wildly, so we have no protection on the downside.

Do current programs cover this? No, but I think producers are willing to put dollars into a realistic and adequate program.

[*Translation*]

Ms. Francine Raynault: Do you have anything to add, madam?

[*English*]

Ms. Terri Holowath: I concur. Based on what I see with my clients, the biggest risk is the commodity risk. They're price takers, as opposed to being able to set the price. They can't push their reduction in margins down to their suppliers. They need some sort of insurance program that is timely, to compensate based on losses that are happening immediately rather than after year-end.

Mr. Russell Evans: I would add that I think the bigger operators manage their risk very well, that is, the very large-scale operators, using market tools. The smaller operators can't cashflow that, and I think we heard that from the pork and chicken guys. They need some help with being able to cashflow the futures markets.

[*Translation*]

Ms. Francine Raynault: On page 4 of your document, you recommend that the government redirect AgriInvest funds to programs that reflect the changes taking place in agriculture in Canada.

Would you please elaborate on your thinking there?

[*English*]

Mr. Russell Evans: I think what we see is farms getting bigger. Generally, the whole small farm existence is diminishing. Rather than spreading out those little bits of dollars, which for most real farm operations that are producing the bulk of our food is really insignificant, it would be better spent investing in something that would create better markets for them.

[*Translation*]

Ms. Francine Raynault: Thank you.

Do I have any time left? Yes.

Mr. Vincent, it seems important from your presentation that your producers be able to invest in infrastructure in order to increase their production. How can we promote that investment?

Mr. Jean-Guy Vincent: When agricultural infrastructure and investment come up, there is too much talk about subsidies. In fact, the issue here is not subsidies for farmers, but rather subsidies to support the processors, retailers and all the other sectors surrounding producers. So when we ask the government to continue investing in infrastructure and investment programs, that's also to help us restructure. We have not been able to reinvest in our buildings in recent years.

If we want agriculture to be profitable, if we want to have low production costs, to be a competitive market relative to our American friends, who are our main competitors, we need infrastructure programs in order to invest in farms. We invest in roads, bridges, public transit: so let's invest in the agricultural sector, in farm buildings so that we can be competitive.

● (1630)

[*English*]

The Vice-Chair (Mr. Malcolm Allen): Mr. Lemieux.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you very much, Mr. Chair.

Thank you, everyone, for being here.

Certainly I'll say from the government side that we too think that farmers want to make their living from the marketplace. There was certainly comment about opening foreign markets to our producers, and that does play a key role, particularly in today's economy. The larger the marketplace our farmers can sell into, the better.

When it comes to business risk management programming, just the reality of today is that the pie is not going to be getting larger any time soon. We had some witnesses here at the last meeting. I was listening to what was being recommended for each of the programs. In each of the four main categories of AgriInvest and AgriStability, the changes, of course, all meant a bigger pie. There were really no trade-offs proposed. That's really what I'm interested in hearing.

For example, with AgriStability, I understand it's frustrating to get the payments so late. But it makes intellectual sense when you look at the way it's managed. You have to finish your year. You then have to file your taxes and your other documentation. It then has to be reviewed. Then a payment is made. Of course, that's long after the difficult times.

Some of the changes in AgriStability will not correct that. They will allow greater coverage, perhaps, or they might allow better access to the program, but they won't necessarily circumvent that problem of getting a payment long after the difficult times. What I'm interested in knowing is which programs are of more benefit to your commodity groups versus one of the others in that category of four? Again, we're not talking about just a larger pie when we know that the financial realities of today probably won't allow that.

I'm also interested in knowing your thoughts on perhaps some new programming initiatives. I've had conversations, for example. Livestock insurance has been proposed that's based not on cost of production but on market price. When you actually go to sell your livestock, are you close to the market price at which you insured? It has nothing to do with cost of production. I'm interested in knowing your thoughts on that, too. It's rather broad and I know time is always limited. We might have time at the end to come back on this; we'll see.

I'll start perhaps with the pork farmers, and then we can work our way into the other commodities as well.

[*Translation*]

Mr. Jean-Guy Vincent: Your analysis is important. Like you, we believe that the pie can't be made any bigger.

Consequently, how do we generate more revenue for producers? Through the markets. The more access we have to lucrative markets in the pork industry, the more revenues will increase and the less government intervention there will be, hence the importance of markets such as Korea and the European Union—lucrative markets —and the domestic market. We are making a major effort to improve our domestic market.

There are other, low-cost programs. For example, the Canadian Swine Health Board doesn't have an enormous budget, but it is important for producers. Health is the key to our production and the revenues it generates.

A program like the AgriStability program is important and has proven itself. However, it must be redefined and improved.

Access to markets, access to lucrative markets, assistance for structural programs that lower our production costs, that's the vision of the Canadian Pork Council.

[*English*]

Mr. Pierre Lemieux: Chicken farmers tend not to fall into these mean risk management programs.

● (1635)

Mr. Mike Dungate (Executive Director, Chicken Farmers of Canada): Can I comment?

In terms of AgriStability, the issue is that we'll never trigger it. We're involved, but only at tier 3. You need a 30% reduction.

Mr. Pierre Lemieux: That's a good thing, though. You will never need the program. That's actually a strength of supply management.

Mr. Mike Dungate: Never needing the program is a strength. From a livestock perspective overall, though, we're not following a crop year kind of thing. Our production will, in a lot of cases, go over both calendar and financial years.

We'd have to lose three flocks in a row—half a year of production —but if it were caught halfway in between, it would never trigger it.

Mr. Pierre Lemieux: Does that happen?

Mr. Mike Dungate: It happens often.

If we have an AI outbreak, and we've had it, generally we're able to get people back in two flocks.

Mr. Pierre Lemieux: That's a bit different, though, right? The AI outbreak involves CFIA. It involves replacement costs for birds. There's a different model that kicks in. It's not a business risk management type of program.

Mr. Mike Dungate: It is for the farmers who aren't getting depopulated but happen to be next door to the guy who is getting depopulated. If they can't restock because they're within the zone, they are the guys who don't get compensated under the Health of Animals Act, and they can't restock.

Mr. Pierre Lemieux: Is it a business decision they make, though, to simply not buy into AgriStability? They have access to it. They make a business decision. They evaluate their risk—the annual payment, the likelihood of me losing my flock, etc.—and they go through a business decision, do they not?

Mr. Mike Dungate: Our point is that we're better off not being in AgriStability. AgriRecovery is the key issue. You've heard the other comment here. Having some predictability with respect to what events will trigger AgriRecovery is the important aspect for us. It is having something knowable in advance so that you can say, okay, we have access to that program. Right now, it's a decision afterwards.

The Vice-Chair (Mr. Malcolm Allen): I recognize that you both could carry on this discussion, and hopefully perhaps someone else will pick it up.

I am looking over at this side. I believe I'm going to see a sub form. That being the case, Mr. Casey, you have five minutes.

Mr. Sean Casey (Charlottetown, Lib.): Mr. Chairman, as you saw, I came in just at the very end of the presentation, when Mr. Valeriote left. He indicated he wouldn't be much longer. I wonder if you, Mr. Chairman, with the agreement of the committee, would consider changing up the order to allow Mr. Valeriote to ask questions of these witnesses.

The Vice-Chair (Mr. Malcolm Allen): I certainly don't have an issue with that. If I don't see an issue from either side, I will go to Mr. Payne, for five minutes.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Mr. Chairman.

I want to thank all the witnesses for coming. It's very important that we hear your comments.

My colleague has certainly started down an interesting area. I was wondering if maybe the cattle feeders could talk about that and also touch a bit on the red tape.

Basically, you're saying that there are all these forms, and they're very complicated. They take a lot of time. They cost a lot of money. I was just wondering if you could make some comments on those. If you have some suggestions, maybe they could be submitted to the committee in writing to help improve the process for filing these applications.

Ms. Terri Holowath: Within the programs we have AgriInvest, and it's capped at $22,500. So right now, based on the size of our producers, that money doesn't make a significant difference in their operations. They go through this complicated process, and that's what they're limited to on that side.

There was a question about whether the pie needs to be bigger. The last time I looked there was $40 million set aside for BRM. I don't think the pie needs to be any bigger. We just need to make it easier to access. They're getting some sizable cheques, but it's happening 14 months, 18 months, two years after their year-end. It needs to be linked to the time at which they sell the inventory. We might submit a more streamlined application at that time, as opposed to linking it to year-end. Linking to year-end is fantastic for primary producers—farmers, ranchers, those types of operations. It doesn't work well where we're flipping inventory a lot of the time. On behalf of cattle feeders, I can tell you that we're more than happy to say where we see inefficiencies and where we can make improvements.

Mr. LaVar Payne: Some of you talked about raising some of the limits on AgriStability and removing caps. Do you have any further comments that you'd like to provide? It doesn't matter if we go to the hog producers, the chicken farmers, the cattle farmers, or the Keystone people. Would you like to comment on what you would recommend, and how it would affect your businesses?

● (1640)

[*Translation*]

Mr. Jean-Guy Vincent: It has to be acknowledged that businesses are growing from year to year. However, for all kinds of reasons, possibly including production costs in particular, programs are not adjusting to changes on the farms.

Programs are not adjusting to changes on the farms or to the transformation of farming businesses. Consequently, whether we like it or not, those businesses are growing and changing year after year. The programs are not adjusted to the size of the businesses. I think it would be very important for there to be family farms where a family can live.

Some businesses also produce in order to meet the needs of both domestic and foreign markets. That's why the programs have to be adjusted and ceilings have to be changed to reflect the situation of farms today.

[*English*]

Mr. LaVar Payne: Does anyone else want to make a comment?

Yes.

Ms. Catherine Scovil (Associate Executive Director, Canadian Pork Council): Further to what Monsieur Vincent said, there is no question that the hog industry has small, medium, and large operations. It's a philosophy of ours that regardless of size you should have the same access to government programming. The caps in AgriStability, AgriInvest, and our APP program limit access. So if you're a certain size, you're penalized, because you're too big for the programs. Our philosophy has always been that farmers should be treated equally regardless of their location or their size.

The Vice-Chair (Mr. Malcolm Allen): That was your time, Mr. Payne.

Monsieur Rousseau.

[*Translation*]

Mr. Jean Rousseau (Compton—Stanstead, NDP): Thank you, Mr. Chairman.

Mr. Vincent, you've made me think once again about the need to invest more in the agricultural sector. A number of markets are opening up to us, given the multi-ethnic character of many communities across the country and the growing demand for organic products, a demand that is both domestic and international.

What aspect of the Growing Forward initiative has the most harmful administrative red tape regarding the growth of these new markets?

Mr. Jean-Guy Vincent: First of all, organic products are important. As you say, there is a market. Consumers want access to those products. It's important to have access to them.

I'm going to ask Ms. Scovil to describe those matters in detail. She is in a better position than I am to explain the specific characteristics of those programs. They're part of her everyday life.

The current problem isn't necessarily accessing the products as such. The problem is that there are no programs enabling producers to develop those markets and thus meet consumer needs. During the period just elapsed, the margins of the AgriStability program shrank so much they blocked access to assistance. That's why the AgriStability program, which initially did the job, has to be revised. It has to be readapted so that we go back to the basis on which that program was built.

At the same time, we need tools such as hedging. That type of tool makes it possible to work with the market, but we don't have the financial capability to support margins when we accept contracts. This is a program that would cost the government virtually nothing. It's not something that costs money; instead, it provides assistance to producers enabling them to access markets and contracts.

I didn't talk about livestock mortality insurance. It's also important for our sector and for the other agricultural sectors, not only for the hog sector. Some pilot projects are currently underway, although producers can't bear all the risk on their own.

So we need government programs that will help us lower our production costs so that we can be competitive.

Now I'll hand over to Ms. Scovil.

● (1645)

[*English*]

Ms. Catherine Scovil: To follow up on what Monsieur Vincent has said, what's really needed to help us—whether it's just for biological production or regular production—is government assistance to help us, not just develop and implement new programs, but to maintain them.

Most of the commodity groups have solid programs in food safety, in biosecurity, in traceability research, and in animal welfare. The government has been very good at helping us get these programs off the ground, but what we don't have is an ongoing commitment to them. These are the programs that help us interface directly with consumers, and that is where I see we need to work together—government and industry—to help agriculture become much more aligned with what consumer expectations are.

Certainly we are looking at increasing pressures from groups who want to have more influence in the way we raise animals, and we need to enhance that interface to better understand it. But we also need some help with government to help us adapt to those consumer expectations, whether they're for biological production or any other kind of production that consumers are looking for on Canadian farms.

[*Translation*]

Mr. Jean Rousseau: Thank you.

[*English*]

Mr. Fuller, on the same subject.

Mr. David Fuller: To start with, on the development of these different kinds of products, we are already developing those now. There are a number of these products that are already being produced in Canada, and what we all need to recognize is that when you produce outside of the norm—whether it be antibiotic-free, free range, or organic—there is a cost to doing that.

What we've been able to do is to look at and capture that cost at the end of the marketplace. To me, it is critical that you have a program that allows you to capture that, because it is a more expensive product to produce. We have been able to gather that from the marketplace at this present time, and we continue to develop those programs to what consumers need in this country with Canadian chicken.

The Vice-Chair (Mr. Malcolm Allen): *Merci*. That's it.

Mr. Lobb.

Mr. Ben Lobb (Huron—Bruce, CPC): Thank you very much.

The first question is for Ms. Holowath.

With the advanced payment program, there's no doubt it's worked well, but we know that the deadline to repay the beef is next year, and for pork it's in 2013. We've heard numerous presentations that it should be expanded and it should be this, that, and the other thing.

You've seen the books of your clients and you'd know best—it's supposed to be due this year and next year—when is it reasonable to actually assume that it should be repaid? Before we would expand these programs or even consider that, we'd probably want to see some repayments to some of these accounts.

Ms. Terri Holowath: Speaking on behalf of my clients, I know they would like it to be an indefinite, forgivable loan.

If you're speaking from the perspective of the money they're making and their ability to repay it, from the perspective of cattle feeders, not many of those producers have applied for advance payments, because of the caps and what's involved. So for them it's not really an issue.

If I'm speaking on behalf of my cow-calf producers, they have gone through a good year in 2010-11, because of market prices.

● (1650)

Mr. Ben Lobb: My next question is for Mr. Evans and Mr. Vincent.

With the advance payment program, price insurance dealing with futures is a way to create some certainty. I can understand the need for putting money in a margin account to cover your forward contracts.

Do you think it's reasonable to have funds available in addition to the advance payment program to use for your margin accounts on your forward sales? Is that something that would help producers out?

Mr. Russell Evans: Yes, that would help. It would be especially good for our smaller operators. The limitation for them is being able to cover those calls on the forward contracts.

[*Translation*]

Mr. Jean-Guy Vincent: Hedging is another tool that enables producers to secure their incomes for the year. For example, it can cover their grain purchases and pork sales. They have a margin.

A problem arises when a producer works on contract. For example, when the price is $1.70 and the market forces it up to $1.80, the producer has to pay the difference. The producer doesn't necessarily have the funds to cover that difference. When he sells a product, he covers his margin and repays his guarantees from his pork sales. Backing the margin entails no risk.

The Advanced Payments Program has been beneficial for producers, who have very much appreciated it. That's something we acknowledge.

However, the established time periods assume that producers will have adequate margins enabling them to repay. Producers want to repay, but they want acceptable conditions so they can repay the Advanced Payments Program.

Grain prices have increased in the past year and a half, as have pork prices. It is reported in the newspapers that the price of pork is higher than ever, which is true. However, grain prices are also at their highest. Producers therefore don't have the necessary margin enabling them to repay.

The program is in existence and they have to start repaying on April 1. For some producers, that will be fine, but others are very concerned. I know what producers want. They need the guarantees on those loans to be more personal guarantees because this very much affects the producers.

[*English*]

Mr. Ben Lobb: At the last meeting we had at least one producer who came in...when we were talking about the Olympic averages, they said we should go to seven years, because seven years is better than five.

Is it your opinion that seven is better? Your presentation said three. What's wrong with seven, or should it be three? What are the arguments for and against?

Ms. Terri Holowath: I've had many claims kicked out because of the Olympic average calculation. I believe there is a recommendation from one of the groups that we move to the better of a simple average and an Olympic average. If you think of a ten-year cycle for typical commodity prices, the seven-year average better reflects the ten-year cycle than a five-year average, which basically cuts it in half. If you're at the end of a bad cycle, then you're at the mercy of your reference margins. So seven would better reflect the ten-year cycle for commodity prices.

The Vice-Chair (Mr. Malcolm Allen): With that, your time is up, Mr. Lobb. Thanks.

Mr. Atamanenko.

Mr. Alex Atamanenko: Thank you. *Merci*.

And thanks to all of you for being here.

My first question is for David. When I was first elected, I recall that evening we spent at one of the receptions where you gave me my first lesson on supply management.

I think those figures have stuck in my mind, but I would like to make sure I'm correct. I believe the quota is either 5% or 7.5%. I believe it's 5% for all countries and 7.5% for our trading partners.

Could you clarify that for me, please? Or are we not sure?

● (1655)

Mr. David Fuller: You're talking about the access.

Mr. Alex Atamanenko: Yes.

Mr. David Fuller: It's 7.5% of our previous year's production. The United States and Mexico come in tariff free. Everyone else has a 5.4% tariff for that percentage. Beyond that is the higher tariff.

Mr. Alex Atamanenko: There's an over-quota tariff.

Mr. David Fuller: Correct.

Mr. Alex Atamanenko: Is that 240%?

Mr. David Fuller: It's 238%.

Mr. Alex Atamanenko: With the production based on last year, our NAFTA partners can come in without a tariff. Other countries can still come in, but they have to pay a 5%—

Mr. David Fuller: It's 5.4%. Correct.

Mr. Alex Atamanenko: How much are we allowing in? You quoted a figure today of—

Mr. David Fuller: It's about 82 million kilograms under the access component. The way I've tried to explain it is that if we take what Atlantic Canada and Saskatchewan grow on an annual basis, that's about the size of it. It's significant kilograms.

Mr. Alex Atamanenko: If that quota were to be increased to 10%, would we be taking a hit? Would we feel it?

Mr. David Fuller: Absolutely. If we were to increase that access to 10%, you would see a reduction in the Canadian chicken industry effective immediately.

Mr. Alex Atamanenko: The reason I ask is there are trading partners that I know would like us to do that.

Mr. David Fuller: There are trading partners that would like us to allow the whole Canadian market.

Mr. Alex Atamanenko: Thank you.

[*Translation*]

Mr. Vincent, you talked about the free trade agreement with South Korea and the fact that negotiations with that country were stalled.

Why do you think they have stalled?

Mr. Jean-Guy Vincent: That's the question we're asking ourselves. It's a lucrative market, and one that is growing. It has really expanded this year. The United States has concluded negotiations which, from what we were able to observe, were difficult right up to the end, for both the Koreans and that the Americans. The fact remains that this is an ideal market for the pork industry. If we want to get the best price in the market and the best markets in order to reduce government involvement, we have to do business in the most lucrative markets.

Ultimately, I don't know the answer.

Mr. Alex Atamanenko: You also discussed the free trade agreement with Europe. You said it was potentially a very lucrative market. And yet the Europeans' quota in the pork industry is now 0.5%, whereas, in the supply management context, ours is 7.5%.

Your association spoke with those people. Do you think they're ready to increase their quota? I know they're highly protective of their industries, particularly the pork industry.

Mr. Jean-Guy Vincent: In those negotiations, we first of all requested access to recognized quotas. The negotiations between Canada and Europe appear to be going well. They are always tough negotiations, but Canadian pork producers are demanding access to those export quotas. Europe has no restrictions on exports of its pork products to Canada. We want some openness, but based on what currently exists.

There were two other points. Catherine, I don't know whether you remember them.

During the year, a processor has to plan, all at once, for the rest of the year, when he has to state the volume he must buy. In fact, he can't know that. Requests to enable Canadian producers in this sector to access the European market are very much accessible to the Europeans. Based on the information at our disposal, the negotiations are going well and matters are progressing. However, that does not mean that everything is finalized and that we are not concerned about this. That is why we remind the government once again the European market is important and that it is important to have access to it.

● (1700)

[*English*]

The Vice-Chair (Mr. Malcolm Allen): Sorry, Mr. Atamanenko, your time is up.

Mr. Zimmer.

Mr. Bob Zimmer (Prince George—Peace River, CPC): Thank you again for coming.

I have a question and a comment to Mike and David from the Chicken Farmers of Canada.

I was speaking with a constituent of mine who happens to run a small restaurant chain. He's a member of the Canadian Restaurant and Foodservices Association. Speaking personally, I've appreciated supply management, in that it's good supply and it's good product. We want to buy Canadian chicken, absolutely; that's what I expect when I go to a restaurant. But he had deep concerns about the association deliberately causing a shortage in the domestic supply market to keep prices high. I want you to comment on that.

Mr. David Fuller: Just so it's clear, and I will be very quick, about how we set allocation and determine how much we produce, we have a 14-person board made up of farmers, primary processors, further processors, restauranteurs, and fast-food people who sit down every eight weeks and determine what we believe, through surveys and through discussions with the rest of the country, is an adequate supply.

We do not shorten the market. Our number one responsibility is to fulfill that market. In fact, we have an organization that oversees us to make sure we take our responsibility seriously, and if we don't, there are always outlets that are able, if the market is short, to bring product in from outside. So we do not deliberately shorten the market to increase the price. That is a myth and it is wrong. It is false.

Mr. Bob Zimmer: I appreciate that, and that's just clarifying.... Obviously, it may be a miscommunication or whatever.

I had the same question, and believe me, again I'm supportive, but I look at it in terms of risk. I look at risk in terms of you as an industry. I look at chicken prices now, where they're almost $7 per kilogram in Canada and they're $2.75 per kilogram in the U.S. I look at that and I think, as much as we want to, and we will continue to support supply management, the deep concern about the pressure that that's causing to the market, and that pressure in terms of even causing a crisis, I would say.... I have received e-mails about this while we're sitting here.

The restaurant association sees it as a crisis, that there's a deep difference in price. If you can explain in terms of risk, if you see a risk in having that price difference...you know what I'm saying.

Mr. David Fuller: If I could, I'll just make a couple of comments, because I know Mike wants in on this as well.

Mr. Bob Zimmer: Please do.

Mr. David Fuller: Clearly, chicken farmers, just like our beef, pork, and grain farmers, do not set retail prices. There is a misconception out there that farmers set prices in stores. That is inaccurate. What we do is negotiate a price with our primary processor. He buys our product. The primary processor sets the wholesale price. If he sells it to a further processor, he sets that price. The retailer sets their price. Farmers in this country, no matter what commodity they are in, do not set retail prices.

I'm going to let Mike in, because we have done some work here in Ottawa this week, and I think it's important that he put it on the table.

Mike.

Mr. Mike Dungate: I'll just do it quickly. I'll come back and talk off line.

The price in the United States is less than what it is in Canada right now. The U.S. industry is having severe problems right now. Their largest processor, Pilgrim's Pride, went bankrupt at the start of 2009 and was bought out by Brazilian JBS, and they're still losing money. Three other major processors this year have gone bankrupt in the U.S., all of them larger than our largest processors in Canada.

The industry in the U.S. is losing on average 13¢ to 17¢ a kilogram for every kilogram they sell. They are now severely restricting supply in the U.S. They tried to blow their brains out at each other, and now they're cutting back and going out of production. So when people say we have to have the same price as the guys in the U.S., I ask, are you asking us to lose as much money as them?

It's not a fair comparison. If you want to compare us to an industry that is profitable and sustainable, then that's a fair comparison. Right now, that price difference is causing us grief with the U.S. because it puts pressure on imports. Those imports that come in—the 7.5% we talked about—is really 15% of our white meat market, our highest-value market, so it has an influence on the price our processors are able to get. Our processors are finding it difficult to pass on feed increases, which are affecting all animal industries right now, to consumers because of that. So there are a lot of dynamics going on right now with feed prices, which is a major cost for all of us.

● (1705)

The Vice-Chair (Mr. Malcolm Allen): With that, Mr. Zimmer, your time is up, sir.

Mr. Valeriote.

Mr. Frank Valeriote (Guelph, Lib.): Thank you, Mr. Chair.

First, for those who have come to Ottawa, I want to apologize for my not being here. I was in the House on a point of privilege on the Canadian Wheat Board issue and the Federal Court decision yesterday, and then with members of the other parties in a scrum.

I'll be limited in my questions because I haven't heard your presentations, but I will ask Mr. Fuller a question.

I think we're all aware of just how supported the American farm industry is with the farm bills they have, in which hundreds of billions of dollars are distributed to farmers, so it's not fair to make a comparison between the United States and Canada when they have such support. Is that an accurate comment?

Mr. David Fuller: Absolutely.

Besides that, last year the U.S. government went in—and I'll use our industry as an example—put $300 million on the counter, and bought up chicken out of the U.S. industry to try to help their industry survive, and they're talking about doing it again. And this is outside of their Farm Bill, so this is additional money.

We have to remember that in Canada, when a Canadian consumer buys his chicken, he pays once for it, and that's at the retail counter. In the U.S., you pay at the retail counter and you pay your taxman.

Mr. Frank Valeriote: You made well the point about your not controlling these prices at the retail level. Retailers charge what they want. Mr. Zimmer has raised the issue, as did the restaurant association, and I acknowledge the commitment that's been made by the government to supply management.

I've talked to Mr. Lemieux about that, and he has assured me that there will be no changes, but I have to ask this: if there are no changes to the tariffs but they change the percentage of the market share that may be available to, say, the European Union, would you be at risk, if it's chickens, even if it's value-added at some point—sending in processed legs, or wings, or something—of then having to rely on business risk management programs that you may not rely on now?

Mr. David Fuller: If you increase the market access, you absolutely put us at risk. At what magnitude will depend on where that market access goes. Even now, with the 7.5% market access that we have, it has a price relation on our product, and we acknowledge that. So, absolutely, it puts us at risk.

As we have continually said, we see supply management as our business risk management tool. We don't want to use the other programs. That is our program that we want to use.

Go ahead, Mike.

Mr. Mike Dungate: I just wanted to add to that.

Just so everybody understands, when we say 7.5% for us, that is based on what we produced in 2010. It increases every single year as we go along. When other countries talk about the access they provide, at the WTO it's based on the consumption from 1986 to 1988. It's static. So don't just compare somebody's 5% to our 7.5%. Our 7.5% is twice our WTO commitment. We've got lots of tools. The government understands this very clearly. We talk to Minister Ritz and Mr. Lemieux on a regular basis to understand what those issues are.

The second part is—and you didn't hear it in our presentation—that we talked about the chicken imports working group that Minister Ritz put in place, and that's to deal with issues of circumvention around that TRQ. We're pleased that we're going to have the implementation of those recommendations.

Mr. Frank Valeriote: Mr. Evans, very quickly, I understand, from conversations, that the CFIA lacks certified veterinarians. A number of them are engaged in excessive travel time, etc.

Can you tell me your understanding of the lack or abundance of certified vets with CFIA?

● (1710)

Mr. Russell Evans: No, not really. I don't really have a handle on how many they have. I know when we ship cattle across the border, we have to find certified vets to inspect those loads, and then we have to go to—

Mr. Frank Valeriote: Do you have trouble finding certified vets?

Mr. Russell Evans: No, no, we have no trouble with that, but we have to go to a provincial vet to have a signature to export those cattle across the border. That is one of our limitations, or a cost—an additional cost—and something that we certainly look forward to being rectified with the e-certification that was just announced in the perimeter agreement, the action plan, yesterday.

The Vice-Chair (Mr. Malcolm Allen): Thank you, Mr. Valeriote.

Mr. Lemieux.

Mr. Pierre Lemieux: Thank you, Chair.

I just wanted to go back to my original question. We ran out of time there.

Doug, could you perhaps comment on, as I said, what's of greater benefit to your industry? Which programs are of greater benefit to your industry?

Mr. Doug Chorney: Sure. Thank you for the question.

Certainly AgriInsurance is the number one product for us in Manitoba. We have a really well-designed and efficient system, where we have 86% of crop producers engaged in subscribing to a crop insurance contract every year. I think we've heard from our commodity groups about the desire for other livestock insurance, for cattle and hogs, and I think there are some pilot projects and research being done in Manitoba.

We've also heard discussions about price insurance and how Alberta has a system. Maybe it's not working perfectly, but I think it is a model that farmers are looking at. What's really unique about those programs is that farmers have a significant amount of skin in the game—40% of the premium is paid for by farmers.

We have government support, but government can predict and budget for these exposures, and that's valuable, and it probably takes pressure off the other more unpredictable programs.

Mr. Pierre Lemieux: Could you explain the key elements of the crop insurance program?

Mr. Doug Chorney: Essentially, it's based on an historical production for different areas of the province in Manitoba. We take individual producer indexes, based on a 10-year average, to recognize management skills of producers. And that will affect your ability to purchase coverage and the cost to you and the coverage you'll be able to receive. It fluctuates, of course, with market prices.

Mr. Pierre Lemieux: The coverage is based on the market price or the futures of a commodity, as you see it on the stock market.

Mr. Doug Chorney: It's actually a fixed price each year that's set annually. Government, with cooperation federally and provincially, put together those prices early in the year. In March producers are given estimates for their farm—

Mr. Pierre Lemieux: Then you insure a percentage of that price, and that has an impact on your premiums.

Mr. Doug Chorney: Right.

You can choose to have 80% coverage, 70%, or 50%, and they also have a whole farm product now, where you look at all the commodities combined, and you can get over 90% total coverage.

This is a highly desirable tool for farmers, and I think it's very popular.

If AgriStability is to evolve...and I did mention in my presentation that we would be open to look at an insurance-modelled approach.

Mr. Pierre Lemieux: That's kind of what I'm asking, actually.

There is tweaking that can be done to AgriStability; there are things that can be changed to perhaps address some of the concerns. Or is it better, actually, to take the money that would be involved in AgriStability and allocate it elsewhere, into a program that's actually more beneficial or more responsive to your sector?

Mr. Doug Chorney: Well, the AgriInsurance systems are really designed for production. They don't reflect the market problems you can have that AgriStability is meant to address. I think there's still a place where we need to help producers out when there is a market problem that affects prices. I wouldn't say pull it completely away from AgriStability—

Mr. Pierre Lemieux: Right, so you would find a different balance.

Mr. Doug Chorney: A different approach might be palatable.

Mr. Pierre Lemieux: I'll go over to Russell and Terri.

Mr. Russell Evans: I'll just touch on it here and let Terri finish off.

I guess one of the provisos that our members always have is that it's not countervailable. We're very sensitive to those.

Mr. Pierre Lemieux: We're sensitive to that, too.

Voices: Oh, oh!

Mr. Russell Evans: Our guys are saying, “Well, let's look at a margin insurance program so that we lock in a range of margins that we target, and if it falls below that, there's coverage there.”

They're willing to put the producer money in, and maybe it's government administered or something like that as well.

● (1715)

Ms. Terri Holowath: AgriInvest, as I said earlier, is probably not working as well as you would want it to work, just because of the limitations. It's capped at $22,500.

On AgriStability, I don't think the house needs to be torn down, but it needs to be renovated. If you turned it into something that looked more like a margin or production insurance program that was linked to inventory sales, I think it would be more effective.

The pie doesn't need to be bigger; it just needs to be managed differently.

Mr. Pierre Lemieux: We're agreeing on that point, but the question is how should it be managed. And the cost of production models at the federal level definitely enter into the possible countervailability realm, so we have to be very careful with that, which is why I keep talking about insurance, because the risk of countervailability is just not the same. I received many briefings on that. I had discussions with different commodity groups on it and it offers certain advantages.

I just wanted to get your feel on that.

Okay, that's good. Thank you, Chair.

The Vice-Chair (Mr. Malcolm Allen): Thank you, Mr. Lemieux.

Mr. Payne.

Mr. LaVar Payne: Thank you, Chair. I'm going to be sharing my time with Mr. Lobb.

I made some notes in terms of the chicken farmers, and you were talking about research, that basically you're doing all of the research. I know we have some clusters out there, and I believe you folks had some research dollars from the government. I'm wondering how you see the best way to have those research dollars benefit your industry —universities, your own research?

Mr. Mike Dungate: We actually got together as a value chain in all of poultry, so eggs, turkeys, hatching eggs, chickens, plus the processors, and we created the Canadian Poultry Research Council. We did that because we were seeing overlap in what we were doing.

Frankly, in universities there also weren't enough poultry researchers, so we created some programs ourselves that were to fund graduate students in that area. We built it up, and a number of us contributed some capital funding to universities. We don't really want to do that, but we did, and I think we've got a good network now across universities and so on in Canada to do poultry research.

The focus of CPRC, and what we like about the cluster program, is that we focus the research dollars. So in January or February we'll bring university researchers in and talk about the priorities of the industry, so they will apply through us. We like the concept where the government works with us on the dollars, so that it's industry-focused research and not pet projects at universities.

Mr. LaVar Payne: That's a great answer.

Mr. Lobb.

Mr. Ben Lobb: Thank you.

Mr. Chorney, to Mr. Lemieux's point about price insurance, maybe you could tell the committee if we already have a market.... We have markets in Chicago or wherever, where we can trade options and forward contracts and everything. That tool is available.

I understand the issue with maybe not having the funds to fuel the accounts to cover the margins. If that's there, does government need to create another set of price insurance programs, and if we do, can you tell us why?

Mr. Doug Chorney: The key thing—and Humphrey Banack, Wild Rose Agricultural Producers' president from Alberta has explained it to me—is that the accessibility and usability of the programming is different in Alberta. Certainly, if you have a commodity broker and you have an investment counsellor, you can do all these sophisticated things of hedging off Chicago futures on your own, but does the average farmer in a small, busy family farm really have the time to do that? Having a product that's administered provincially by your crop insurance agency or whoever is providing your ag services in the province with federal support.... I think in Alberta they actually don't have any government money involved in the price insurance program; it's strictly actuarially self-supporting. I think the administration is helped by the Alberta government only, so it's not costing government money.

When we talk about the advance payments program and using cash advances, this is another example of a tool that allows farmers to take the profitability from the marketplace and not from government programming. Anything we can do to make it more efficient for farmers to access marketplace revenue is going to give pressure relief to government spending on government programs.

● (1720)

Mr. Ben Lobb: To summarize, you'd say yes.

Mr. Doug Chorney: Yes.

Mr. Ben Lobb: Okay.

One last question to Ms. Holowath. You were talking about caps on AgriInvest, and the taxpayer has to also believe this is reasonable. So if you're going to raise the caps, are you talking about raising the caps to, say, 1.5% to 2.5%, or are you talking about taking the cap from, say, $22,000 to $222,000? What number do you feel is a reasonable cap that protects the average Canadian farmer?

Ms. Terri Holowath: I'm saying get rid of AgriInvest and redirect those funds toward other programs within agriculture, whether it be market access, innovation, or research. Right now it's like peanut butter spread really thin. You're trying to get the largest number of producers as opposed to the largest number of production. Redirect the funds, is what I'm suggesting.

The Vice-Chair (Mr. Malcolm Allen): Thank you very much, folks.

We do have some committee business to do, so let me just take the opportunity to thank the witnesses for being here today and for your input. It was greatly appreciated by the committee. You're free to go, obviously—and we are not. Have a great weekend.

Okay, folks, we can get started on committee business. We don't have an unlimited amount of time, unless of course you want to stay longer. I'm in your hands. If you want to stay for a while, it's okay.

We're going to go into committee business, and my sense of this is that we're still with the motion we were discussing at the last meeting. I'm assuming that's where we want to head, to go back to that discussion.

Mr. Pierre Lemieux: Yes.

The Vice-Chair (Mr. Malcolm Allen): Then I open the floor to that discussion.

Mr. Pierre Lemieux: Oh, we should be going into.... Do we need to pass a motion?

Okay. I'll move a motion that we go in camera, Chair.

The Vice-Chair (Mr. Malcolm Allen): A motion to go in camera is non-debatable. All those in favour? Opposed?

It's four and four, folks. Where's Bob?

Mr. Frank Valeriote: Mr. Chair, can I speak on the motion, please?

The Vice-Chair (Mr. Malcolm Allen): First, Mr. Valeriote, it is a four-four decision, so it is my decision whether to go in camera or not.

Mr. Frank Valeriote: Oh. I thought it automatically failed if was tied.

The Vice-Chair (Mr. Malcolm Allen): No, it doesn't fail. It gets me to break it.

Mr. Pierre Lemieux: Here's our member, sir.

The Vice-Chair (Mr. Malcolm Allen): But we've already called the vote.

Let me just say this to the government side. Am I going to help you here? I hope you're hearing the help. I'm going to move that we go in camera, but I hope you understand what I've done for you when we have the discussion.

[*Proceedings continue in camera*]

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